

# ICPS newsletter

## Consumer optimism on the rise in Ukraine

*In December 2000, the Consumer Confidence Index grew to 79.5 (possible range 0 to 200), compared to its value of 65.2 in September. The index's growth by 14.3 points resulted from increases in all of its components, with the indicator showing consumer expectations for the upcoming year growing the most. Most Ukrainians believe that prices in the next few months will not increase faster than now. These results, found during a survey of Ukraine's households, were published in the third issue of ICPS's Consumer Confidence newsletter last week. Consumer confidence survey is a joint project of the company GfK-USM and the International Centre for Policy Studies*

In December 2000, the Consumer Confidence Index (CCI) in Ukraine totalled 79.5, whereas three months before, in September, it was 65.2. The Consumer Confidence Index's growth by 14.3 points in December 2000 in comparison with September index resulted from increases in all of its components, with no exception (indexes x1-x5). Index x3, which shows consumers' expectations regarding the development of the country's economy in the next 12 months, grew the most. Furthermore, with many more residents expecting an improvement in their personal position in the nearest half-year, index x2 increased by 13.4 points. Finally, the index of current personal financial position x1 increased by 6.5 points, while during the previous survey in September it only grew by 4.5 points. Positive expectations of Ukrainians for the next year, and growth in the index of current personal financial position, and the index of propensity to consume x5 by 15 points.

December's results could have been affected by seasonal factors (the survey was conducted on the eve of the winter holiday season). However, the fact that the increases of the Consumer Confidence Index (CCI), the Index of the Current Situation (ICS), and the Index of Economic Expectations (IEE) were by more than 10 points allows us to assume that significant changes occurred in the consumer confidence of the country's residents in the final three months of last year. These changes resulted from economic processes which took place in the country during the year 2000, including:

- economic growth;
- slowdown of inflation in the second half of the year;
- stability of the hryvnia exchange rate during the year;
- elimination of arrears in state pensions and wages;
- increase of real wages and pensions.

December's survey revealed that CCI, ICS, and IEE increased in all regions of the country. We can also state that the consumer confidence indexes of different regions are continuing to level out. This time, the difference between the highest index, observed in Kyiv, and the lowest one, in the Eastern region totalled 10.2 points. Meanwhile, this difference totalled 10.8 points in September and 21.5 points in June.

In December, like in September,

### Index values

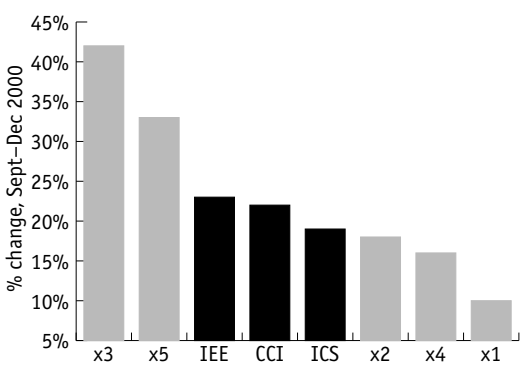
Index of current personal financial position (x1)	73.0 +6.5
Index of expected changes in personal financial position (x2)	89.5 +13.4
Index of expected economic conditions in the country within the nearest year (x3)	80.3 +23.6
Index of expected economic conditions in the country within the nearest 5 years (x4)	93.8 +12.7
Index of propensity to consume (x5)	60.8 +15.0
<b>Consumer confidence index (CCI)</b>	<b>79.5 +14.3</b>
Index of the current situation (ICS)	66.9 +10.7
Index of economic expectations (IEE)	87.9 +16.6
Index of expected changes in unemployment (IECU)	148.3 +0.7
Index of inflationary expectations (IEE)	165.5 -10.5

consumer confidence improved the most in the South, where the CCI increased by 23.4 points, while the ICS and IEE increased by 26.6 and 21.4 points, respectively. Since this region specialises in agriculture, consumer confidence probably improved as a result of the increased crop harvest from individual holdings that was observed last year. In addition, the majority of residents in Southern region expected that their personal financial position would improve in the nearest half-year, with the index x2 increasing by 28.8 points to a record of 101.9. Possibly, the warm winter has helped to sell crop products more easily and has given reasons to expect a good harvest in 2001.

Our analysis of the indexes by types of settlement showed that during Q4'00 the consumer confidence of rural residents improved the most; all indexes improved in this group except the index of expected changes in unemployment. As we mentioned above, the optimistic

### Growth rate of indexes

from September 2000 to December 2000



mood of Ukrainian countryside people was probably shaped by good crop results and favourable weather, as well as successful reforms of the agricultural sector. Furthermore, we should mention that the share of elderly people in the countryside is higher than in other types of settlements; for this reason, the repayment of pension arrears, and increase of pensions, had a higher effect for improving consumer confidence in the countryside than in towns and cities.

The analysis of data by age group shows that the confidence of the middle-aged population improved the most. Compared to September, the CCI of this group increased by 16.9 points, while the ICS and IEE increased by 11 and 20.9 points, respectively. The CCI and IEE increased primarily thanks to increases in index x3 reflecting the expectations of the population regarding economic development of the country for the next year. Importantly,

index x3 increased the most among the indexes x1–x5 in the two other age groups, as well. This fact gives reason to state that the share of the population anticipating further economic growth is increasing. To this extent, the most attention should be paid to the confidence of the middle-age group, since this group makes up the majority of the economically active population. If the government manages to set a policy which would increase the confidence of this age group, then the expectations of middle-age people will increase.

During Q4'00, substantial changes happened in the confidence of the poorest population of Ukraine, with all indexes of this income group improving to a greater extent than the corresponding indexes of the middle-income group. Among the poorest residents, the share of those who expected improvement of the economic situation in the country increased

significantly, both in the short run and the long run. In particular, the index x3 (short-term expectations) increased by 30.2 points and reached 73.2, while the index x4 (long-term expectations) increased by 16.8 points to 86.2. These results demonstrate the effectiveness of the current government's social policy.

For the first time in the history of CCI study in Ukraine, the CCI of the population with above-average income exceeded the 100 mark and reached 104.6. The Index of Economic Expectations of this group increased even more and totalled 108.2. This data means that the majority of wealthy people expect for improvements in the economic situation in the country during the next year. ■

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## Last Week

### Latest Transformatsiia.

A new issue of the bulletin *Transformatsiia*—a Russian-language version of the World Bank's *Transition* newsletter, issued and distributed by ICPS under a contract with the World Bank—was published last week. The new issue contains articles on the following topics:

1. World Bank's new approach helps business in transition economies.
2. Are foreign investors and multinationals engaging in corrupt practices in transition economies?
3. Political tactics and economic reform in Russia.
4. A market economy needs an effective state.
5. Russian-U.S. economists suggest new agenda for economic reform.
6. The lure of authoritarian temptation.
7. Reversing the brain drain.

*If you wish to subscribe to the bulletin Transformatsiia, please contact Mr. Oleksiy Blinov, ICPS marketing office, tel.: (380-44) 463-6337, e-mail: marketing@icps.kiev.ua*

## How consumer confidence index is calculated

*In Ukraine, the CCI is determined through a random survey of the country's households; the survey includes 1,000 people aged from 15 to 59. Statistical deviation does not exceed 3.2%.*

*To define the CCI, the respondents are asked the following questions:*

1. How has the financial position of your family changed over the last six months?
2. How do you think your family's financial position will change in the next six months?
3. Speaking of the economic conditions in the country as a whole, do you think the next twelve months will be a good or bad time for the country's economy, or something else?
4. And if we are to speak of the next five years, will they be for the country's economy a good or bad time?
5. Speaking of large purchases for the home (such as furniture, refrigerator, household gadgets, TV set), do you think it's generally a good or bad time to make those purchases now?

*With regard to each of these questions, the corresponding index is calculated:*

- index of current personal financial position (x1);
- index of expected changes in personal financial position (x2);
- index of expected economic conditions in the country within the nearest year (x3);
- index of expected economic conditions in the country within the nearest 5 years (x4);
- index of propensity to consume (x5).

*Indexes are constructed in the following way: from the portion of positive answers the portion of negative answers is deducted, and to this difference 100 is added in order to eliminate the appearance of any negative values. On the basis of these five indexes, three aggregated indices are calculated:*

- consumer confidence index (CCI) – arithmetic average of indexes x1–x5;
- index of the current situation (ICS) – arithmetic average of indexes x1 and x5;
- index of economic expectations (IEE) – arithmetic average of indexes x2, x3, and x4.

*Index values range from 0 to 200. The index value equals 200 when the entire population positively assesses the economic situation. The index totals 100 when the shares of positive and negative assessments are equal. Indexes less than 100 indicate the prevalence of negative assessments.*

*ICPS Newsletter* is a weekly publication of the International Centre for Policy Studies delivered by electronic mail. To be included in the distribution list mail to: marketing@icps.kiev.ua.

*ICPS Newsletter* is published by the ICPS Publications Group. ICPS Publications director Hlib Vyshlinsky (hlib@icps.kiev.ua) *ICPS Newsletter* editor Maria Melnyk (mmelnyk@icps.kiev.ua) English text editor D. (Ksenia) Ovcharenko. Articles may be reprinted with ICPS consent.

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